

Salona Cotspin Limited

December 28, 2023

Facilities	Amount (₹ crore)	Rating ¹	Rating Action
Long-term bank facilities	143.05	CARE BBB; Stable	Assigned
Short-term bank facilities	126.95	CARE A3+	Assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the bank facilities of Salona Cotspin Limited (SCL) derive strength from extensive experiences of the promoters in textile industry, and long track record of operations. The ratings also derive strength from the established relationship with its customers, diversified customer profile in both export and domestic markets and benefits derived from captive power consumption. The ratings are, however, constrained by the moderate capital structure and debt protection metrics, profitability inherent to the volatility of the raw material prices and exposure to foreign currency rate fluctuation.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Ability to increase operating income over ₹800 crore with profit before interest, lease rentals, depreciation and taxation (PBILDT) margin above 6% on a sustained basis.
- Ability to improve overall gearing below 1.2x.

Negative factors

- Any large debt-funded capex leading to deterioration in the capital structure above 2.5x.
- Any stretch in the working capital cycle more than 150 days.

Analytical approach: Standalone

Outlook: Stable

The 'Stable' outlook reflects that the company is expected to sustain its growth in scale of operations with long-standing relationship with the customers and maintain the profitability aided by the captive power installed over the years.

Detailed description of the key rating drivers:

Key strengths

Vast experience of the promoters in the textile industry

Shyamlal Agarwala, Managing Director and Chairman has more than five decades of experience in textile industry, especially in commodity trading and procurement. He was ex-president of Coimbatore Yarn Merchants & Brokers Association. Manoj Kumar Jhajhariya, son of Shyamlal Agarwala, is the Joint Managing Director of the company and has around three decades of experience in the textile industry. He looks after day-to-day operations in the company. Raghav Agarwal, Director and son of Manoj Kumar Jhajheria is the third-generation entrepreneur having more than six years of experience in textile sector, takes care of international marketing and promotional activities.

Long established operational track record

SCL was incorporated in the year 1994. As on November 30, 2023, the installed capacity of SCL is 25,488 spindles and 10 knitting machines. The company is also involved into trading of multiple types of yarn and fabrics (both cotton and man-made) whose contribution had increased from 49.89% in FY21 to 52.85% in FY23. The total operating income (TOI) stood comfortable at ₹486.91 crore in FY23 improved to ₹349.49 crore in H1FY24 with increase in order flow.

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Benefits derived from captive power consumption

The company has installed capacity of 7.45 MW of solar and windmill plants. Furthermore, the company is installing an additional 3.4-MW solar plants during FY24, which is expected to be commissioned by March 2024. Post installation of the new solar plants, the company is expected to meet 90-95% of power requirements internally.

Geographically diversified customer profile

The company had presence in both export and domestic markets with exports contributing to 76.20% (PY: 89.90%) of income in FY23. SCL exports yarn and fabric to customers across countries including Bangladesh, Vietnam, Sri Lanka, China, etc., which are entirely LC-backed orders. The top 10 customers contributed 31.32% (PY: 30.28%) in FY23, mitigating the client concentration risk.

Key weaknesses**Moderate capital structure and debt protection metrics**

The capital structure of the company stood moderate with overall gearing of 2.12x as on March 31, 2023, albeit improved from 2.42x as on March 31, 2022, owing to higher working capital borrowings. The debt protection metrics remained moderate with total debt to gross cash accruals (GCA) at 6.67x as on March 31, 2023 (PY: 5.62x).

Exposure to volatility of raw materials and forex rates

The profitability of textile mills depends largely on the prices of cotton and cotton yarn, which are governed by various factors, such as area under cultivation, monsoon, international demand-supply situation, etc. The cotton yarn being the major raw material of knitting mills, movement in cotton prices without parallel movement in yarn prices impact the profitability of the spinning mills. The cotton textile industry is inherently prone to the volatility in cotton and yarn prices. In the last one year, there has been an unprecedented increase in domestic cotton price. CARE Ratings notes that with all exports denominated in USD and rupee depreciating against US dollar for the past few years, the company is exposed to the foreign exchange risk.

Industry outlook and prospects

India is the world's second-largest manufacturer of textiles and garments. The textile and apparel industry represents over 4% of India's total gross domestic product (GDP) and more than 14% of the country's export earnings yearly, making it India's largest manufacturing sector. Recently, global retail sales of clothes have seen a slowdown due to high inflation and low consumer confidence after 18 months of strong growth through mid-2022. The government of India encourages small and medium-sized enterprises (SMEs), especially eligible exporters, to expand to international markets through multiple schemes. Among these include the Export Promotion Capital Goods (EPCG) Scheme, the Remission of Duties or Taxes on Export Products (RoDTEP) Scheme, and the Rebate on State and Central Taxes and Levies (RoSCTL) Scheme.

Liquidity: Adequate

The liquidity is adequate characterised by the sufficient cash accruals of ₹23.55 crore in FY23 and moderate cash balance of ₹0.06 crore as on March 31, 2023 as against repayment obligation of ₹6.31 crore in FY24. The operating cycle remains moderate at 122 days in FY23 (PY: 67 days) owing to increase in the collection and inventory period due to the slow movement of goods amidst slowdown in export demand. The company offers 60-70 days of credit period to its customers while availing 20 days of credit from its suppliers. The average working capital utilisation of fund-based limits stood at 33.92%, while that of the bill discounting (FDBD) stood at 53.07% in past 12 months ending November 2023. The current ratio stood comfortable at 1.37x as on March 31, 2023 (PY: 1.32x).

Assumptions/Covenants: Not applicable

Environment, social, and governance (ESG) risks: Not applicable

Applicable criteria

[Policy on default recognition](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

[Short Term Instruments](#)

[Cotton Textile](#)

[Manufacturing Companies](#)

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About the company and industry

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Consumer discretionary	Textiles	Textiles & apparels	Other textile products

SCL was incorporated in the year 1994 by Shyamlal Agarwala, the Chairman, and day-to-day operations are managed by Manoj Kumar Jhajheria, the Joint Managing Director. The company is engaged in the manufacturing and trading of yarn and grey fabrics. The company has installed capacities of 25,488 spindles and 10 knitting machines as on date.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	H1FY24 (UA)
Total operating income	647.08	486.91	349.49
PBILDT	37.39	34.83	16.66
PAT	19.78	17.55	3.78
Overall gearing (times)	2.42	2.12	NA
Interest coverage (times)	5.06	3.70	2.39

A: Audited UA: Unaudited NA: Not available; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: India Ratings has reviewed the rating of SCL and classified it into 'issuer not cooperating' category based on the best available information vide PR dated September 18, 2023.

Acuite has reviewed the rating of SCL and classified it into 'issuer not cooperating' category based on the best available information vide PR dated December 13, 2023.

Any other information: Not applicable

Rating history for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash credit		-	-	-	87.50	CARE BBB; Stable
Fund-based - LT-Term loan		-	-	March 2037	55.55	CARE BBB; Stable
Fund-based - ST-EPC/PSC		-	-	-	19.95	CARE A3+
Fund-based - ST-Foreign Bill discounting		-	-	-	107.00	CARE A3+

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Fund-based - LT-Term loan	LT	55.55	CARE BBB; Stable				
2	Fund-based - LT-Cash credit	LT	87.50	CARE BBB; Stable				
3	Fund-based - ST-EPC/PSC	ST	19.95	CARE A3+				
4	Fund-based - ST-Foreign Bill discounting	ST	107.00	CARE A3+				

*Long term/Short term.

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash credit	Simple
2	Fund-based - LT-Term loan	Simple
3	Fund-based - ST-EPC/PSC	Simple
4	Fund-based - ST-Foreign bill discounting	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please [click here](#)

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

Contact us

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About us:

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